



EVENT FLASH

Weaker than expected results on low gross margin

Yansab reported a weaker than expected set of results with a net income of SR603mn compared to our estimates of SR690mn. Net income increased 53.4% YoY but declined 0.8% QoQ. Although revenues were broadly in-line with our estimates, weak gross margin was the main factor for the weaker than expected results. Gross margins came in at 36.6%, lower than our estimates of 41.5% and 3Q16 of 40.8%. Operating rates stood at 97.1% in comparison to our estimate of 99.7% and 3Q16 of 95.4%.

- NCBC view on the results:** Yansab reported a weaker than expected 4Q16 results with a net income of SR603mn in 4Q16, 12.6% lower than the NCBC estimates of SR690mn but in-line with the consensus estimate of SR615mn. We believe lower than expected gross margin led to the variance.
- Revenues came in at SR1,849mn in 4Q16, broadly in-line with our estimate. 4Q16 revenue grew 7.2% QoQ and remained flat YoY. Based on our calculations, Yansab facilities operated at 97.1% in 4Q16, lower than our estimate of 99.7%. This is lower than 105% in 4Q15 but higher than 95.4% in 3Q16.
- Gross margin stood at 36.6% in 4Q16, lower than our estimate of 41.5% and 40.8% in 3Q16. We believe lower operating rates, weak PP-propane spreads and higher than expected cost of production prior to the unplanned shutdown at the MEG plant impacted gross margin. According to CCFGroup, Yansab had an unplanned shutdown at the MEG plant in late December 2016 due to technical issues.
- In 4Q16, MEG prices increased 16.2% QoQ (+18.8% YoY) to US\$731. PE and PP prices increased 2.2% and 2.4% QoQ respectively. PP-propane spread declined 2.0% QoQ to US\$685.
- Based on Yansab results, we revise our estimates for SABIC downward to SR5,291mn from SR5,335mn.
- We remain Overweight on the stock with a PT of SR50.4. Yansab is one of our top-picks in the sector driven by high operational efficiency, strong balance sheet and attractive dividend yield of 5.4%. The stock is trading at 2017E P/E of 17.2x, higher than the sector average of 16.2x which is justified.

4Q16 Results Summary

SR mn	4Q16A	3Q16A	% QoQ	4Q15A	% YoY	4Q16E % Var^
Revenues	1,849	1,726	7.2	1,831	1.0	1,907 (3.0)
Gross income	677	704	(3.9)	537	26.0	792 (14.6)
Gross margin (%)	36.6%	40.8%	(4.2)	29.3%	7.3	41.5% (4.9)
Operating income	619	656	(5.8)	478	29.3	736 (16.0)
Net income	603	608	(0.8)	393	53.4	690 (12.6)
EPS (SR)	1.07	1.08	(0.8)	0.70	53.4	1.23 (12.6)

Source: Tadawul, NCBC Research, ^ % Var indicates variance from NCBC estimates

OVERWEIGHT

Target price	50.4
Current price (SR)	55.3

STOCK DETAILS

52-week range H/L (SR)	58/24
Market cap (\$ mn)	8,300
Shares outstanding (mn)	563
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	6.9	15.8	110.1
Rel. to market	9.6	(9.9)	95.0

Avg daily turnover (mn)	SR	US\$
3M	25.2	6.7
12M	20.5	5.5

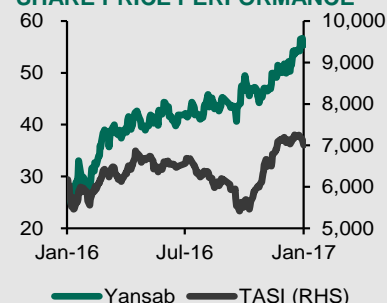
Reuters code	2290.SE
Bloomberg code	YANSAB AB
	www.yansab.com.sa

VALUATION MULTIPLES

	15A	16A	17E
P/E (x)	25.8	13.5	17.2
P/B (x)	2.0	1.9	1.9
EV/EBITDA (x)	12.0	8.9*	10.0
Div Yield (%)	3.6	5.4	4.5

Source: NCBC Research estimates, *-estimate

SHARE PRICE PERFORMANCE



Source: Tadawul

Iyad Ghulam +966 12 690 7811
i.ghulam@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware of, and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under license number 37-06046. The registered office of which is at King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.